

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549



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ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

AM 3/9/2004**

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FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING January 1, 2003 AND ENDING December 31, 2003
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

H & S Securities, LLC

OFFICIAL USE ONLY

FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

60 Spear Street, Suite 400
(No. and Street)
San Francisco CA 94105
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Mary H. Marshall (415) 781-0793
(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Kevin G. Breard, CPA An Accountancy Corporation

(Name — if individual, state last, first, middle name)

PROCESSED

MAR 12 2004

9010 Corbin Avenue, Suite 7 Northridge California
(Address) (City) (State)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

SEC 1410 (3-91)

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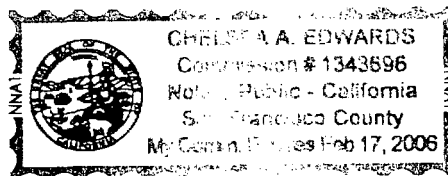
OATH OR AFFIRMATION

I, Mary H. Marshall, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of H & S Securities, LLC, as of December 31, 2003, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

State of California
County of San Francisco
Subscribed and sworn (or affirmed) to before me this 25th day of February, 2004

Chelsea A. Edwards
Notary Public

Mary H. Marshall
Signature
member
Title

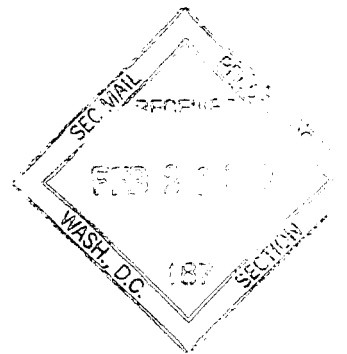


This report** contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in ~~Financial Condition~~ Cash Flows
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

H & S Securities, LLC
Report Pursuant to Rule 17a-5 (d)
Financial Statements
For the Year Ended December 31, 2003



KEVIN G. BREARD, C.P.A.
AN ACCOUNTANCY CORPORATION

Independent Auditor's Report

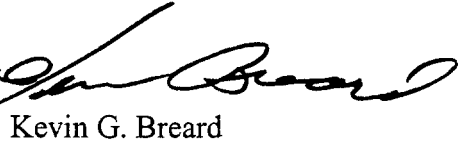
Board of Directors
H & S Securities, LLC

I have audited the accompanying statement of financial condition of H & S Securities, LLC as of December 31, 2003, and the related statements of income, changes in members' equity, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of H & S Securities, LLC as of December 31, 2003, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

My examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on Schedules I-III are presented for purposes of additional analysis and is not required as part of the basic financial statements, but as supplementary information required by rule 17a-5 of the Securities and Exchange Commission. Such information has been subject to the auditing procedures applied in the examination of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole and in conformity with the rules of the Securities and Exchange Commission.



Kevin G. Breard
Certified Public Accountant

Northridge, California
February 3, 2004

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NORTHRIDGE, CALIFORNIA 91324
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H & S Securities, LLC
Statement of Financial Condition
December 31, 2003

Assets

Cash	\$ 21,232
Receivables from affiliates	7,680
Other assets	<u>341</u>

Total assets	<u>\$ 29,253</u>
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Liabilities and Members' Equity

Liabilities

Accounts payable and accrued expenses	<u>\$ 9,200</u>
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Total liabilities	9,200
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Members' equity	<u>20,053</u>
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Total liabilities and members' equity	<u>\$ 29,253</u>
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The accompanying notes are an integral part of these financial statements.

H & S Securities, LLC
Statement of Income
For the year ended December 31, 2003

Revenue

Commissions	\$ 19,027
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Expenses

Professional fees	5,746
Management fees	7,950
Other operating expenses	<u>787</u>

Total expenses	<u><u>14,483</u></u>
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Income before income tax provision	4,544
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Income tax provision	<u>800</u>
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Net income	<u><u>\$ 3,744</u></u>
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The accompanying notes are an integral part of these financial statements.

H & S Securities, LLC
Statement of Changes in Members' Equity
For the year ended December 31, 2003

	<u>Members'</u> <u>Capital</u>
Balance at January 1, 2003	\$ 10,809
Members' contributions	5,500
Net income	<u>3,744</u>
Balance at December 31, 2003	<u><u>\$ 20,053</u></u>

The accompanying notes are an integral part of these financial statements.

H & S Securities, LLC
Statement of Cash Flows
For the year ended December 31, 2003

Cash flows from operating activities:

Net income		\$ 3,744
Adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) decrease in:		
Receivables from affiliates	\$ (7,680)	
(Decrease) increase in:		
Accounts payable and accrued expense	<u>6,200</u>	
Total adjustments		<u>(1,480)</u>
Net cash provided by operating activities		2,264

Cash flows from investing activities:

—

Cash flows from financing activities:

Members' contributions	<u>5,500</u>	
Net cash provided by financing activities		<u>5,500</u>
Net increase in cash		7,764
Cash at beginning of year		<u>13,468</u>
Cash at end of year		<u><u>\$ 21,232</u></u>

Supplemental disclosure of cash flow information:

Cash paid during the year for

Interest	\$ —
Income taxes	\$ 800

The accompanying notes are an integral part of these financial statements.

H & S Securities, LLC
Notes to Financial Statements
December 31, 2003

Note 1: GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

H & S Securities, LLC (the "Company"), was organized in the State of California on October 03, 2000, as a Limited Liability Company operating as a registered broker-dealer in securities under the Securities and Exchange Act of 1934. The Company is an (introducing) broker/dealer which earns commissions on mutual fund transactions and variable insurance products. The Company does not hold customer funds and/or securities and is a member of the National Association of Securities Dealers, Inc. ("NASD").

Summary of Significant Accounting Policies

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Accounts receivables are stated at face amount with no allowance for doubtful accounts. An allowance for doubtful accounts is not considered necessary because probable uncollectible accounts are immaterial.

Commission income and expenses are recorded on trade date basis.

The Company, with the consent of its Members, has elected to be a California Limited Liability Company. For taxes purposes the Company is treated like a partnership, therefore in lieu of business income taxes, the Members are taxed on the Company's taxable income. Therefore, no provision or liability for Federal income taxes is included in these financial statements. The State of California has similar treatment, although there exists a provision for a gross receipt tax and a minimum Franchise Tax of \$800.

Note 2: RELATED PARTIES

The majority of the members of the Company are also partners in the firm of Hood & Strong, LLP, a certified public accounting firm. Hood & Strong LLP formed H & S Financial Advisors, LLC, a registered investment advisory firm, H & S Private Client Insurance Services, LLC, an insurance agency, and H & S Securities, LLC to conduct investment advisory services for its

H & S Securities, LLC
Notes to Financial Statements
December 31, 2003

Note 2: RELATED PARTIES
(Continued)

clients. Members of the Company are also members of the other two LLCs. The Company has an affiliate expense agreement with Hood & Strong LLP, whereby Hood & Strong, LLP will pay for all shared operating expenses and the Company will pay for all expenses directly related to the broker/dealer activities. The Company reimbursed H & S Financial Advisors, LLC for its share of personnel expenses which totaled \$7,950 in 2003.

Receivable from affiliates (H & S Financial Advisors, LLC) of \$7,680 is due on demand and uncollateralized.

Note 3: INCOME TAXES

The Company is a California registered limited liability company. The Federal taxation is similar to a partnership, whereby the taxes are paid at the member level. All tax effects of the partnership's income or losses are passed through to the partners individually.

The Company is subject to a limited liability company gross receipts tax, with a minimum provision of \$800. For the year ended December 31, 2003, the Company recorded the minimum limited liability company income tax of \$800.

NOTE 4: RECENTLY ISSUED ACCOUNTING STANDARDS

In January 2003, the FASB issued Interpretation 46, *Consolidation of Variable Interest Entities*. In general, a variable interest entity is a corporation, partnership, trust, or any legal structure used for business purposes that either (a) does not have interest entity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Interpretation 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of Interpretation 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to transactions entered into prior to February 1, 2003 in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The adoption of the Interpretation on July 1, 2003 did not have a material impact on the Company's financial statements.

H & S Securities, LLC
Notes to Financial Statements
December 31, 2003

NOTE 4: RECENTLY ISSUED ACCOUNTING STANDARDS
(Continued)

In April 2003, the FASB issued SFAS 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, which amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. The Statement is effective for contracts entered into or modified after June 30, 2003. The adoption of this Statement did not have a material impact on the Company's financial statements.

In May 2003, The FASB issued SFAS 150, *Accounting for Certain Financial Instruments with Characteristic of both Liabilities and Equity*. The Statement establishes standards for how an issuer classifies and measure certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer clarify a financial instrument that is within its scope as a liability (or an asset in some circumstances). It is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this Statement did not have a material impact on the Company's financial statements.

Note 5: NET CAPITAL

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Net capital and aggregate indebtedness change day to day, but on December 31, 2003, the Company had net capital of \$12,032, which was \$7,032 in excess of its required net capital of \$5,000; and the Company's ratio of aggregate indebtedness \$(9,200) to net capital was 0.76 to 1, which is less than the 15 to 1 maximum ratio allowed for a broker/dealer.

H & S Securities, LLC
Schedule I - Computation of Net Capital Requirements
Pursuant to Rule 15c3-1
As of December 31, 2003

Computation of net capital

Members' equity	<u>\$ 20,053</u>	
Total Members' equity		\$ 20,053
Less: Non allowable assets		
Receivable from affiliates	(7,680)	
Prepaid expenses	<u>(341)</u>	
Total non-allowable assets		<u>(8,021)</u>
Net capital before haircuts		12,032
Less: Haircuts		<u>-</u>
Net Capital		12,032

Computation of net capital requirements

Minimum net capital requirements		
6 2/3 percent of net aggregate indebtedness	\$ 613	
Minimum dollar net capital required	<u>5,000</u>	
Net capital required (greater of above)		<u>5,000</u>
Excess net capital		<u><u>\$ 7,032</u></u>

Ratio of aggregate indebtedness to net capital 0.76: 1

There was no material difference between net capital shown here and net capital as reported on the Company's unaudited Form X-17A-5 report dated December 31, 2003.

See independent auditor's report.

H & S Securities, LLC
Schedule II - Computation for Determination of Reserve
Requirements Pursuant to Rule 15c3-3
As of December 31, 2003

A computation of reserve requirement is not applicable to H & S Securities, LLC as the Company qualifies for exemption under Rule 15c3-3 (k)(1).

See independent auditor's report.

H & S Securities, LLC
Schedule III - Information Relating to Possession or Control
Requirements Under Rule 15c3-3
As of December 31, 2003

Information relating to possession or control requirements is not applicable to H & S Securities, LLC as the Company qualifies for exemption under Rule 15c3-3 (k)(1).

See independent auditor's report.

H & S Securities, LLC
Supplementary Accountant's Report
on Internal Accounting Control
Report Pursuant to 17a-5
For the Year Ended December 31, 2003

KEVIN G. BREARD, C.P.A.
AN ACCOUNTANCY CORPORATION

Board of Directors
H & S Securities, LLC

In planning and performing my audit of the financial statements and supplemental schedules of H & S Securities, LLC for the year ended December 31, 2003, I considered its internal control structure, for the purpose for safeguarding securities, in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission, I have made a study of the practices and procedures followed by H & S Securities, LLC including tests of such practices and procedures that I considered relevant to objectives stated in rule 17a-5(g), in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities, I did not review the practices and procedures followed by the Company in any of the following:

1. Making the quarterly securities examinations, counts, verifications and comparisons
2. Recordation of differences required by rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control structure and the practice and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures and of the practices and procedures referred to in the proceeding paragraph and to assess whether those practices and procedures can be expected to achieve the Commission's above mentioned objectives. Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with generally accepted accounting principles. Rule 17-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

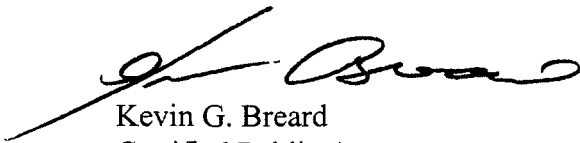
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B r e a r d C P A @ a o l . c o m

Because of inherent limitations in any internal control structure or the practices and procedures referred to above, errors or irregularities may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

My consideration of the internal control structure would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, I noted no matters involving the internal control structure, including procedures for safeguarding securities, that I considered to be material weakness as defined above.

I understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission to be adequate for its purpose in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate material inadequacy for such purposes. Based on this understanding on my study, I believe that the Company's practices and procedures were adequate at December 31, 2003 to meet the Commission's objectives.

This report is intended solely for the use of management, the Securities and Exchange Commission, and other regulatory agencies which rely on rule 17a-5(g) under the Securities Exchange Act of 1934 and should not be used for any other purpose.



Kevin G. Breard
Certified Public Accountant

Northridge, California
February 3, 2004